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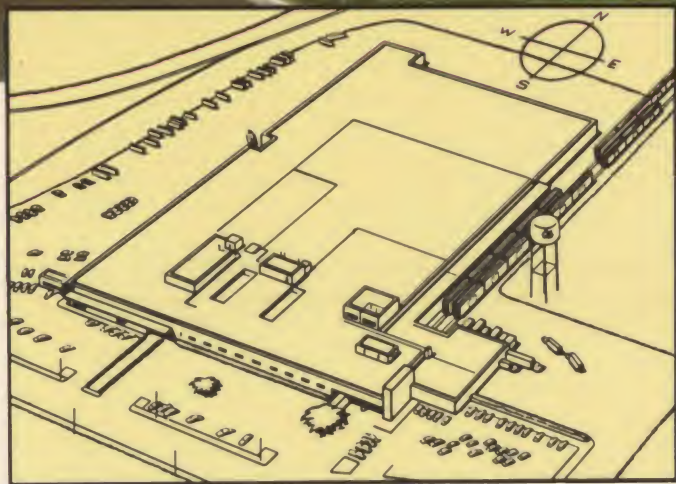
ANNUAL REPORT

Red Owl Stores, Inc.

FOR PERIOD ENDED FEBRUARY 27, 1954

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HOPKINS, MINNESOTA is the site of Red Owl's first one-story mechanized warehouse. Completed in 1948, the building (above and left) is the result of several years' study of modern warehousing and distribution development. In addition to warehouse facilities, the plant includes Red Owl's General Offices, a modern bakery, coffee roasting plant, restaurant, supermarket, cabinet shop and truck maintenance garage.

ON THE FRONT COVER—Entrance to Red Owl's newest and largest warehouse at Green Bay, Wisconsin. Completed in November, 1953, the building offers the most modern warehouse facilities in the country. It serves the Wisconsin and Upper Michigan area.

To our Stockholders and Employees:

During the year just completed, Red Owl inaugurated and successfully carried out an aggressive operating policy designed to provide added sales volume in a period characterized by rapid development and intensified merchandising efforts on the part of the industry as a whole. Sales for the year reached the highest level in Red Owl's history. Aggregate retail and wholesale volume amounted to \$106,787,173 — an increase of approximately \$11,700,000, or 12% in excess of the previous year. We believe that this extraordinary sales promotion resulted in increased acceptance of our services by present customers and attracted a large number of new friends who will be regular customers in the future.

As anticipated, costs of achieving sales goals and upgrading personnel had a significant effect on the net operating profit of the Company. Net profit after taxes on income was \$680,100 compared with \$745,929 the previous year.

The preferred requirement of \$4.75 per share was paid and the common stock dividend rate of \$1.00 per share was continued. Total dividend payments to stockholders amounted to \$482,633. Earnings in excess of such payments were retained in the business for new equipment and facilities.

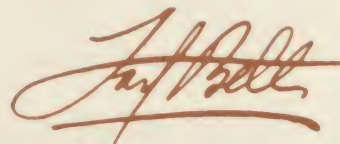
During the past year, one of the Company's major developments was the completion of a new warehouse in Green Bay, Wisconsin. Opening this plant has completed a chain-wide, up-to-date distribution system for the Company. Its three principal warehouses are situated in strategic locations within its present trade area, increasing the efficiency of its warehousing operation, and providing greater capacity for tonnage of proposed retail and wholesale outlets.

Red Owl enters its thirty-third year with confidence in the opportunities that lie ahead—and with plans for the Company's

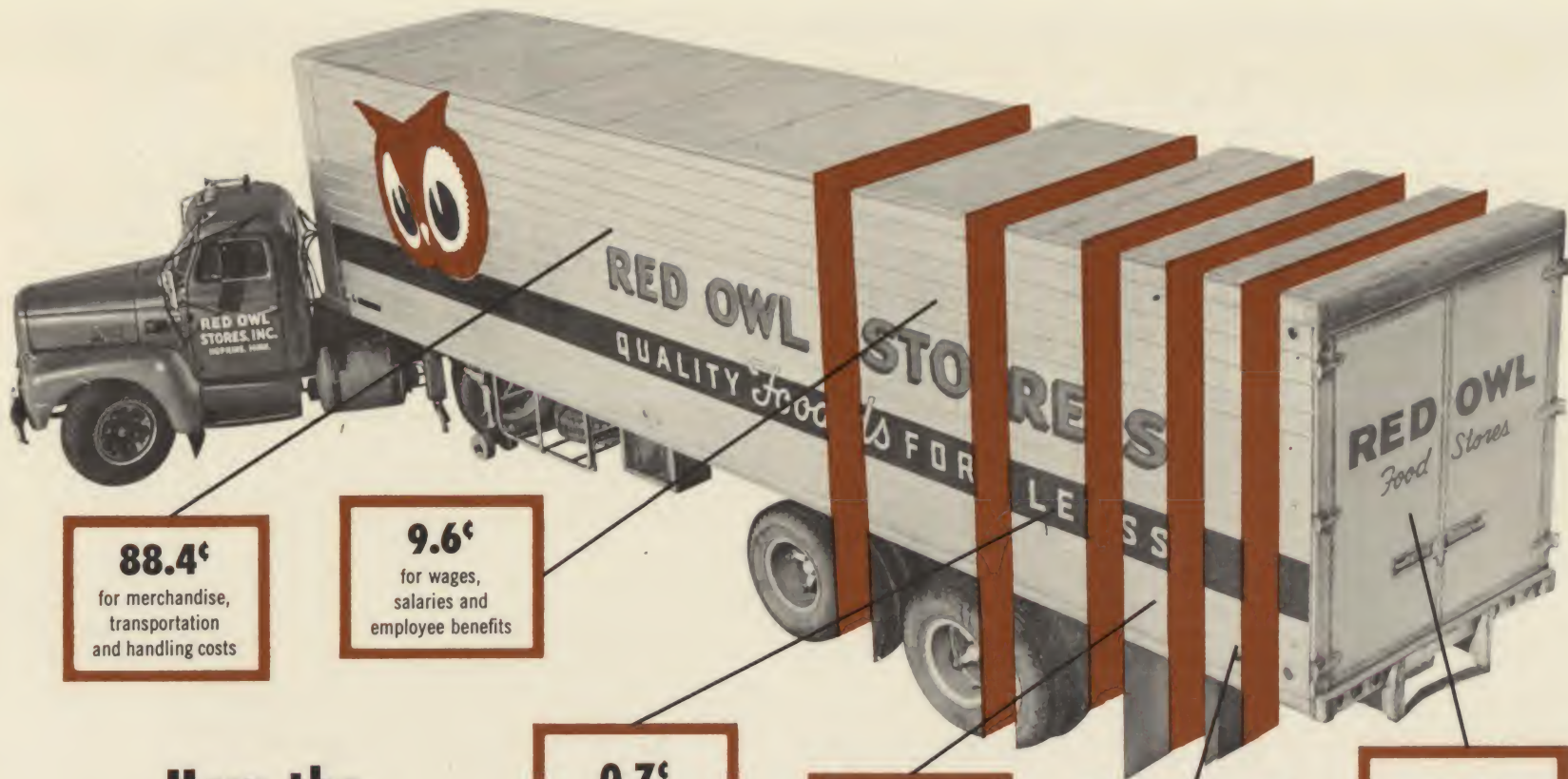
continued growth and development. In order to capitalize on the sales base which has been established, emphasis for the coming year will be directed towards a balanced operation of sales, gross margins, and expense control. The industry and your management has long recognized the greater opportunities afforded by the super-market type stores. Present plans include the launching of an accelerated program of relocation of existing inadequate stores into supermarkets with parking areas, and expanding into communities not now served by Red Owl with modern facilities. A significant amount of outside capital will be required to carry out this proposal and the most desirable methods of financing are currently being studied, and the availability of sites is being surveyed. As a first step, the preferred shares outstanding at the year-end were called for redemption subsequent to that time.

It is our unswerving objective to provide Red Owl's customers with superior goods and services, to maintain and improve the excellent employee relationship, which has been so essential to the Company's success, and to endeavor to earn a favorable return on the stockholders' investment.

The splendid support of our many employees and stockholders was of inestimable benefit in the past year. We are relying upon your continued cooperation in the fiscal year 1954-1955.



PRESIDENT



88.4¢

for merchandise,
transportation
and handling costs

9.6¢

for wages,
salaries and
employee benefits

0.7¢

for
income taxes

0.6¢

for depreciation
of buildings
and equipment

0.5¢

to
stockholders

0.2¢

reinvested
in the business

**How the
Sales Dollar
was divided**

Highlights of the year's operations

We received from the sales of goods and services.....	\$106,787,173
We paid for merchandise, transportation, handling costs, rents maintenance, and general operating expenses other than payrolls..	94,393,269
We paid to our employees in wages and salaries, and for other employee benefits including social security, retirement income and group insurance.....	10,275,732
We set aside for depreciation and amortization of fixed assets and leasehold improvements.....	688,072
We set aside for federal and state taxes on income.....	750,000
This left us as earnings.....	680,100

Out of these earnings

We paid to our preferred stockholders as dividends.....	24,097
We paid to our common stockholders as dividends.....	458,536
And we reinvested in the business.....	197,467





Review of the year's operations

A most significant step in Red Owl's progress in 1953 was the completion of a modern, one-story warehouse near Green Bay, Wisconsin. Pictures of the new building appear on these two pages. In addition to providing efficient service for the surrounding trade area, the new plant enables the Company to handle additional tonnage which will result from proposed new outlets in the territory.

PERSONNEL

Red Owl is proud of the industrious and efficient people who make up its organization and who are so vital to the Company's

Freight car below is just one of 12 that can be unloaded simultaneously in the perishable food section of the new plant. At left: food products piled ceiling-high inside the warehouse.



success. Employee-employer relations have set a standard of excellence and have been marked by harmonious, cooperative effort. This continuing rapport probably can best be explained by the fact that employee benefits have kept pace with the industry and are periodically reviewed by management with regard to trends in the general economy. These employee benefits include equitable salaries, a contributory group insurance program, a pension plan paid for entirely by the employer, as well as liberal vacation and leave of absence policies.

It is Red Owl's practice, whenever possible, to promote worthy, eligible persons from within the Company to positions of greater responsibility. Every effort is made to evaluate employees' work progress and job qualifications on a

continuing basis—to train and prepare personnel for the innumerable opportunities available in a company of Red Owl's size. Executive leadership among major department heads is developed by a Junior Advisory Council which was organized and extended during the year. This Council frequently participates in discussions of management problems, thus gaining first-hand knowledge of Company affairs.

In keeping with the Red Owl management policy of providing courteous, friendly service in all Company stores, a training film was completed during the year, entitled "The Million Dollar Question Mark". The film will be used, at regularly scheduled meetings of employee groups, to train Red Owl's personnel in proper and even more efficient methods of serving Red Owl customers.

Get 'em while they're fresh! Below, huge machine in Green Bay plant turns out record numbers of freshly roasted peanuts. Red Owl also roasts its own coffee in Hopkins.



Cameras roll as Red Owl produces its first film, "The Million Dollar Question Mark". Filmed in color, movie will train employees in management's courtesy policy.

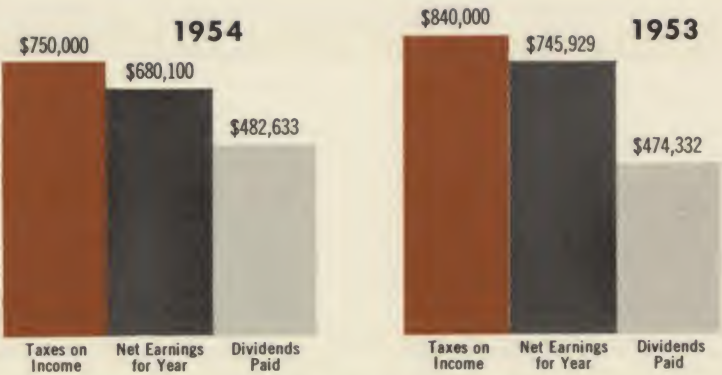
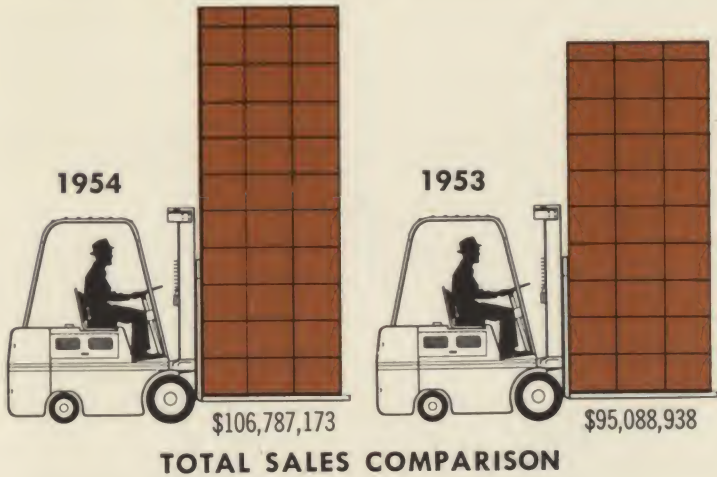


SALES TOP \$100,000,000

For the first time in the Company's history, sales exceeded the \$100,000,000 mark. Actual total was \$106,787,173. This represents an increase of \$11,698,235 or 12% over the previous year. Sales at retail amounted to \$77,063,837, an increase of 14%, while wholesale sales increased 7% for a total of \$29,723,336. The response to the Company's sales promotion during the year was very satisfactory, particularly in larger volume stores.

EARNINGS

Although earnings for the year did not respond proportionately to increased volume, there was a marked increase



COMPARISON OF TAXES ON INCOME, NET EARNINGS & DIVIDENDS

in customer preference for shopping in Red Owl stores. This indicates a strong foundation for future profit benefits. Pre-tax consolidated earnings were \$1,430,100, compared with \$1,585,929 the year before. Consolidated net earnings after taxes on income amounted to \$680,100 as against \$745,929.

Earnings were \$1.43 per share of common stock after meeting preferred stock requirements, compared with \$1.54 in the previous fiscal year. For the same periods, taxes on income amounted to \$1.63 per share of common and \$1.84 respectively.

DIVIDENDS

Again, quarterly dividends of 25 cents per share were paid to common stockholders for a total amount of \$458,536. Preferred dividend requirements at \$1.18¾ per share were distributed at regular quarterly payment dates.

CONSOLIDATED STATEMENT OF OPERATIONS & EARNINGS REINVESTED IN BUSINESS

Red Owl Stores, Inc. and Subsidiary Companies Year ended February 27, 1954 (with comparative figures for the previous year)

	Year Ended	
	Feb. 27, 1954	Feb. 28, 1953
Net retail sales.....	\$77,063,837	67,344,759
Net wholesale sales.....	29,723,336	27,744,179
Gain on sale of property and equipment.....	13,880	31,890
Other income.....	14,287	10,461
Total gross revenue.....	106,815,340	95,131,289
Costs and expenses:		
Cost of goods sold, including warehousing and transportation expenses.....	91,871,851	82,017,207
Selling, general and administrative and other operating expenses (note 3).....	13,315,575	11,386,380
Interest: { On long-term debt.....	116,250	116,250
{ Other.....	44,693	4,853
Other miscellaneous charges.....	36,871	20,670
Taxes on income, estimated:		
Federal: { Income tax.....	700,000	782,000
{ Excess profits tax.....	—	11,000
State.....	50,000	47,000
Total costs and expenses.....	106,135,240	94,385,360
EARNINGS FOR YEAR.....	680,100	745,929
Deduct dividends on Red Owl Stores, Inc. capital stock:		
4¾% cumulative preferred stock, Series A.....	24,097	42,265
Common stock—\$1.00 per share.....	458,536	432,067
	482,633	474,332
Earnings for year reinvested in business.....	197,467	271,597
Balance of earnings reinvested in business at beginning of year.....	4,825,027	4,553,430
Balance of earnings reinvested in business at end of year (note 4).....	\$ 5,022,494	4,825,027
Depreciation and amortization expense included in costs and expenses amounted to \$688,072 and \$652,930 in respective years.		

See accompanying notes to financial statements



CONSOLIDATED BALANCE SHEET

February 27, 1954

	Feb. 27, 1954	Feb. 28, 1953
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,540,809	1,638,969
United States Government securities, at cost	9,037	9,037
Accounts receivable:		
Customers	948,700	926,440
Due from vendors, claims, etc.	141,917	141,313
	1,090,617	1,067,753
Less allowance for doubtful accounts	98,150	96,763
	992,467	970,990
Merchandise inventories (note 1), less \$285,000 reserve	8,454,815	7,038,525
Prepaid expenses	186,188	218,500
Recoverable construction costs	54,988	720,633
Total current assets	11,238,304	10,596,654
CASH SURRENDER VALUE OF LIFE INSURANCE	42,290	35,768
PROPERTY, PLANT AND EQUIPMENT, at Cost:		
Land	224,253	187,618
Buildings	82,789	275,239
Furniture, fixtures and equipment	4,696,637	4,138,191
Automotive equipment	1,659,143	1,569,093
	6,662,822	6,170,141
Less depreciation	3,093,634	2,635,606
	3,569,188	3,534,535
Leasehold improvements, at cost less amortization	1,013,785	998,287
Construction in progress	63,188	—
	4,646,161	4,532,822
OTHER ASSETS	200,304	68,865
	<u>\$16,127,059</u>	<u>15,234,109</u>

RED OWL STORES, INC. and Subsidiary Companies
(with comparative figures for the previous year)

LIABILITIES

	<u>Feb. 27, 1954</u>	<u>Feb. 28, 1953</u>
CURRENT LIABILITIES:		
Drafts payable.....	\$ 239,184	84,183
Accounts payable.....	3,258,083	2,702,385
Dividend payable on preferred stock.....	5,859	6,221
Accrued expenses.....	753,712	690,760
Federal and State taxes on income, estimated.....	843,756	921,494
Total current liabilities.....	<u>5,100,594</u>	<u>4,405,043</u>
 LONG-TERM $3\frac{7}{8}\%$ NOTES PAYABLE due July 1, 1966, payable in annual installments of \$240,000 on July 1 in each of the years 1955 through 1965 and unpaid balance on July 1, 1966 (note 4).....	 3,000,000	 3,000,000
 STOCKHOLDERS' EQUITY:		
Capital Stock (notes 2 and 4):		
Preferred stock—par value \$100 per share.		
Authorized 25,000 shares; issued and outstanding at respective dates, 4,934 and 5,239 shares, $4\frac{3}{4}\%$ cumulative, Series A.....	493,400	523,900
Common stock—par value \$3 per share.		
Authorized 750,000 shares; issued and outstanding at respective dates, 459,590 and 457,688 shares.....	1,378,770	1,373,064
	<u>1,872,170</u>	<u>1,896,964</u>
Additional amounts paid in by stockholders, less expenses in connection with stock issue (including in current year \$24,726 arising from conversion of preferred stock) (note 2).....	1,131,801	1,107,075
Balance of earnings reinvested in business, per accompanying statement (note 4).....	5,022,494	4,825,027
	<u>8,026,465</u>	<u>7,829,066</u>
 LONG-TERM LEASE COMMITMENTS (note 5).....	 <u>\$16,127,059</u>	 <u>15,234,109</u>

See accompanying notes to financial statements



NOTES TO FINANCIAL STATEMENTS

Red Owl Stores, Inc. and Subsidiary Companies

1. Inventories at February 27, 1954 are stated at the lower of cost (first-in, first-out) or replacement market, and at February 28, 1953 at cost (first-in, first-out). The difference at the end of the year between cost and the lower of cost or replacement market value of the inventories was minor in amount; accordingly, the change in the basis of inventory valuation had no appreciable effect on earnings for the year.

2. The outstanding shares of 4¼% cumulative preferred stock, Series A, were called for redemption on April 16, 1954 at \$106 per share plus accrued dividends of 20 cents per share. Conversion privileges expired April 13, 1954, at which time 3,776 preferred shares had been converted into 23,561 common shares (at the rate of 6¼ shares of common stock for each share of preferred stock, with cash adjustment for fractional shares).

3. Pension and profit sharing costs included in selling, general and administrative and other operating expenses are as follows:

	YEAR ENDED	
	Feb. 27, 1954	Feb. 28, 1953
Officers' and employees' profit sharing (including in 1954 payments of \$19,200 to certain supervisory personnel previously compensated under other contractual arrangements).....	\$188,420	156,421
Pension premium costs.....	181,000	171,644

The retirement pension plan, approved by stockholders and effective February 26, 1945, is qualified under the Internal Revenue Code and provides retirement benefits for eligible employees. The entire cost of the plan is borne by the company, and past

service costs have been fully amortized. While the company reserves the right to discontinue the plan (in which event all premiums paid inure to the benefit of employees), its continuance is anticipated.

4. Restrictions on payment of dividends (except stock dividends) and purchase, redemption, or retirement of capital stock are imposed by terms of the agreements relating to the 3½% notes. The amount free from such restrictions at February 27, 1954 was \$995,800. The note agreements, among other things, provide for prepayment of the long-term debt at the option of the company at varying premiums.

5. Long-term leases expiring more than three years after February 27, 1954 established minimum annual rentals on 70 stores and 4 warehouses. The approximate present minimum annual rentals under such leases, excluding any taxes, insurance, or maintenance costs payable by the lessee, amount to \$803,000. Of this amount, leases with minimum annual rentals of \$178,000 expire within five years and leases with present minimum annual rentals of \$327,000 (with provision for reduction in rental over the remaining term of one lease) have terms extending beyond twenty years from that date.

During the year ended February 27, 1954, the company sold for \$2,300,000 a warehouse the construction of which was completed during the year. The minimum annual rental, included in the foregoing summary, on this property, which was leased back to the company for an initial period of twenty-five years, is approximately \$161,000.

In addition, the company has entered into agreements to lease store properties at new locations for initial periods of ten to twenty years at minimum annual rentals aggregating approximately \$93,000.



ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

Certified Public Accountants
Northwestern Bank Building
Minneapolis 2, Minn.

The Board of Directors
Red Owl Stores, Inc.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and subsidiaries as of February 27, 1954 and the related statement of operations and earnings reinvested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of operations and earnings reinvested in business present fairly the financial position of Red Owl Stores, Inc. and subsidiaries at February 27, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota
April 19, 1954

FIVE YEAR STATISTICAL SUMMARY

Red Owl Stores, Inc. and Subsidiary Companies

FISCAL YEAR ENDED IN	1954	1953	1952	1951	1950
Sales } Retail	\$77,063,837	67,344,759	65,340,696	55,359,134	50,822,144
Wholesale	29,723,336	27,744,179	24,493,197	22,761,945	18,873,627
Total	106,787,173	95,088,938	89,833,893	78,121,079	69,695,771
Earnings before taxes on income	1,430,100	1,585,929	1,720,269	2,157,583	1,775,677
Taxes on income	750,000	840,000	988,000	1,111,000	718,592
Net earnings for year	680,100	745,929	732,269	1,046,583	1,057,085
Per share of Common	1.43	1.54	1.63	2.41	2.52
Per dollar of sales	6/10 of 1¢	8/10 of 1¢	8/10 of 1¢	1 1/3¢	1 1/2¢
Dividends paid } Per share Common	1.00	1.00	1.00	.90	.50
Per share Preferred	4.75	4.75	4.75	4.75	4.75
Current Assets	11,238,304	10,596,654	10,179,162	8,695,462	6,683,613
Current Liabilities	5,100,594	4,405,043	3,990,964	4,714,840	2,637,100
Net Working Capital	6,137,710	6,191,611	6,188,198	3,980,622	4,046,513
Ratio of Current Assets to Current Liabilities	2.20 to 1	2.41 to 1	2.55 to 1	1.84 to 1	2.53 to 1
Stockholders' equity	8,026,465	7,829,066	7,558,564	7,295,710	6,672,938
Book value per share Common	16.32	15.89	15.29	14.60	12.97
Number of stores } Retail	151	162	179	181	189
at close of year } Agency	551	562	559	546	536
Average retail sales per location	510,357	415,428	364,607	298,854	257,656

Looking Ahead

Pictured on the covers of this report are the three major warehouses which make up Red Owl's handling and distribution system. All warehouses were deliberately planned with grocery capacity for future, rather than present day needs. At a future date it may be advisable to consolidate the fruit and vegetable operations in Fargo and Hopkins by additions to these plants.

During the post-war period, management has recognized the basic changes in consumer shopping habits and the trend towards large supermarkets. It is apparent that capital now invested in small stores which yield a low return should be employed in expanding the number of profitable large volume units. To this end the Company will begin the relocation of some existing stores with adequate parking, and step up the selection of new locations. Studies of the most suitable long-range financing methods are currently being made. The extent of next year's program will be determined to some degree by the availability of property. If satisfactory lease negotiations can be concluded, approximately twelve supermarkets should be developed in the coming year. The management believes that substantially improved earnings can accrue from an aggressive development program designed to materially increase sales volume.



1926. Store interiors looked like this just four years after Red Owl opened its first store in Rochester, Minnesota.



1939. Keeping pace with its growing business, Red Owl opened this beautiful, new store in Grand Forks, North Dakota.



1950. Typical of Red Owl's modern, enlarged supermarkets. First supermarket was opened 10 years before in Fargo, N.D.



1954. The last word in foodstore design. This new supermarket at Marquette, Michigan incorporates most modern selling methods.

FORD BELL

29 years service. Member of Board since 1928. President and General Manager of the Company since 1936.



ALF L. BERGERUD

20 years service. Elected to Board in 1944. Vice President in charge of Real Estate Operations, Store Construction and Maintenance, Labor Relations and Legal Counsel.



JOHN C. CORNELIUS

Elected a Director in 1948. Executive Vice President of Batton, Barton, Durstine & Osborn, Inc., Advertising Agency.



JOHN Y. DEAR

32 years service. Elected Board Member in 1943. Vice President in charge of Warehousing, Transportation, and Manufacturing Departments.



DIRECTORS

FORD BELL

*President
Red Owl Stores, Inc.*

ALF L. BERGERUD

*Vice President
Red Owl Stores, Inc.*

JOHN C. CORNELIUS

*Executive Vice President
Batten, Barton, Durstine & Osborn, Inc.*

JOHN Y. DEAR

*Vice President
Red Owl Stores, Inc.*

H. J. WORRELL, *Vice President, Red Owl Stores, Inc.*

GLENN R. GRIFE

*Executive Vice President
Red Owl Stores, Inc.*

RICHARD L. KOZELKA

*Dean, School of Business Administration
University of Minnesota*

JOSEPH F. RINGLAND

*President, Northwestern National Bank
of Minneapolis*

HENRY C. STEPHENSON

*Treasurer & Assistant Secretary
Red Owl Stores, Inc.*



GLENN R. GRIFE

32 years service. Became a Director in 1935. Executive Vice President; in charge of Procurement, Merchandising and Advertising.



RICHARD L. KOZELKA

Elected to Board of Directors in 1949. Dean of Business Administration, School of Business, University of Minnesota.



JOSEPH F. RINGLAND

Elected to the Board of Directors in 1944. President of Northwestern National Bank of Minneapolis, Minnesota.

OFFICERS

FORD BELL

President

GLENN R. GRIFE

Executive Vice President

ALF L. BERGERUD

Vice President

JOHN Y. DEAR

Vice President

H. J. WORRELL

Vice President

HENRY C. STEPHENSON

Treasurer & Assistant Secretary

J. T. SYDNESS

Secretary & Assistant Treasurer

RICHARD H. WHITE

Assistant Secretary

ERLING E. RICE

Assistant Vice President

F. D. SCOTT

Controller



RICHARD H. WHITE

14 years service. Assistant Secretary, Manager of the Real Estate Department, Associate Counsel for the Company.



ERLING E. RICE

19 years service. Asst. Vice President and Manager of the Company's Corporate Division which operates all retail outlets.



HENRY C. STEPHENSON

24 years service. Has been a board member since 1935. Serves as Treasurer and Assistant Secretary of the Company.



H. J. WORRELL

27 years service. Elected a Director in 1944. Vice President in charge of Red Owl's Agency Division, wholesale voluntary organization.



J. T. SYDNESS

7 years service. Company's Secretary and Assistant Treasurer. In charge of Personnel, Budget and Insurance Departments.



F. D. SCOTT

7 years service. Controller of the Corporation since 1947 and in charge of Company accounting and controls.

RED OWL FACILITIES MAP



WAREHOUSES



CORPORATE STORES



AGENCY STORES

RED OWL NOW OPERATES 151 corporate retail stores in nine states. However, the majority are located in Minnesota, the Dakotas, and Wisconsin. There are now 551 agency stores in the trade area, three main warehouses, plus a sub-warehouse which is maintained in Rapid City, South Dakota.

GEOGRAPHIC DISTRIBUTION OF STOCKHOLDERS *

STATE	Holders of Pfd. Stock	No. of Pfd. Shares	Holders of Comm. Stock	No. of Comm. Shares
Minnesota	95	3,466	1,240	343,296
Wisconsin	57	771	155	18,406
North Dakota	5	73	230	33,444
South Dakota	5	224	28	2,924
Montana	1	35	19	1,597
Iowa	1	10	9	1,783
Michigan	2	35	19	3,358
Total	166	4,614	1,700	404,808
All other states	24	397	137	54,047
Total	190	5,011	1,837	458,855

** This analysis was made before the end of the fiscal year. As of April 16, 1954, the present preferred stock was called in for redemption by the Company.*

190 holders of preferred stock owned 5,011 shares.

1837 holders of common stock owned 458,855 shares.

183 shareholders owned less than 100 shares preferred stock.

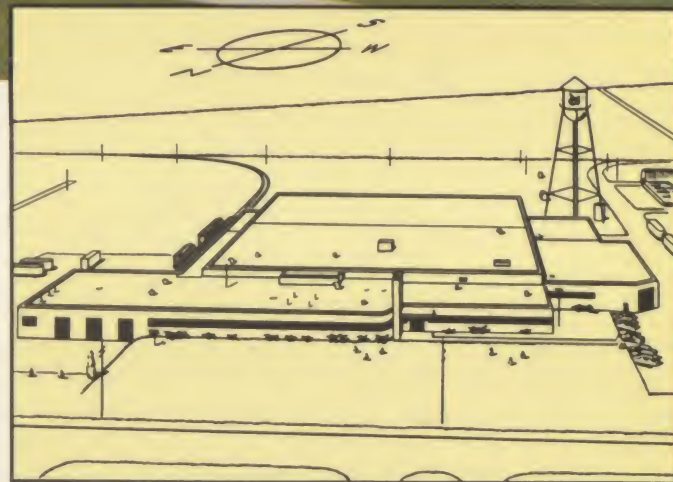
864 shareholders owned less than 100 shares common stock.

913 shareholders owned between 100-1000 shares common stock.



RED OWL'S WAREHOUSE at Fargo, North Dakota — established late in 1949. Above, the giant-sized structure as seen from the front. (At right, the same building from the air.) This up-to-date, fully mechanized warehouse has done much to provide adequate facilities for handling added tonnage. Included in the plant are an up-to-the-minute bakery and an efficient truck maintenance garage.

ON THE BACK COVER—Red Owl's huge new Green Bay, Wisconsin warehouse is built on an 18-acre site. The mammoth plant is large enough to receive 27 railroad cars at one time.



For more information about the activities and policies of Red Owl Stores, write to—

RED OWL STORES, INC.
HOPKINS, MINNESOTA

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn.

Mailing Address: Post Office Box 1128, Minneapolis, Minn.

Stock Transfer Agent: Northwestern National Bank of Minneapolis

Auditors: Peat, Marwick, Mitchell & Co.

